

**Improvements to the Tax Exempt and
Government Entities Correspondence
Operation Would Enhance Customer Service**

May 2001

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

May 21, 2001

MEMORANDUM FOR COMMISSIONER, TAX EXEMPT AND GOVERNMENT
ENTITIES DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Improvements to the Tax Exempt and
Government Entities Correspondence Operation Would Enhance
Customer Service

This report presents the results of our review of the Tax Exempt and Government Entities (TE/GE) correspondence operation. The objective of this review was to evaluate whether the TE/GE Division effectively implemented a centralized correspondence operation that provides quality responses to customers' written inquiries.

In summary, the TE/GE Division has implemented a centralized correspondence operation that generally provides accurate responses to customers' written inquiries. While the TE/GE Division has made considerable progress in implementing the centralized correspondence operation, improvements in program and database controls are needed to ensure customers receive timely responses.

We recommended that the TE/GE complete work on the establishment of program goals and ensure that the proposed goals meet the expectations of their customers and stakeholders. We also recommended they eliminate a procedural step used to process incoming written inquiries and establish program time standards for entering closing information into the database used to control written inquiries. In addition, database controls should be enhanced to ensure correspondence data are accurate, complete, reliable, and secure.

TE/GE management agreed with our recommendations and has either implemented or plans to implement several enhancements in its effort to provide "World Class Customer Service." Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included in Appendix IV.

Copies of this report are also being sent to the Internal Revenue Service managers who are affected by the report. Please contact me at (202) 622-6510 if you have questions or Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**Improvements to the Tax Exempt and Government Entities Correspondence
Operation Would Enhance Customer Service**

Table of Contents

Executive Summary.....	Page i
Objective and Scope.....	Page 1
Background	Page 1
Results	Page 3
The Tax Exempt and Government Entities Division Needs to Ensure That Program Goals and Processing Controls Assist in Managing the Correspondence Operation.....	Page 4
System Enhancements Are Needed to Ensure That Correspondence Data Are Accurate, Complete, Reliable, and Secure.....	Page 9
Conclusion.....	Page 13
Appendix I – Detailed Objective, Scope, and Methodology	Page 14
Appendix II – Major Contributors to This Report.....	Page 18
Appendix III – Report Distribution List.....	Page 19
Appendix IV – Management’s Response to the Draft Report.....	Page 20

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

Executive Summary

The Tax Exempt and Government Entities (TE/GE) Division is committed to providing its customers with quality customer service by helping them understand and comply with applicable tax laws and to protect the public interest by applying the tax law with integrity and fairness to all. To meet this commitment, the TE/GE Division established a centralized customer service site organized around the three distinct customer segments it serves: Employee Plans, Exempt Organizations, and Government Entities. This audit evaluated whether the TE/GE Division effectively implemented a centralized correspondence operation that provides quality responses to customers' written inquiries.

Results

The TE/GE Division has implemented a centralized correspondence operation that generally provides accurate responses to customers' written inquiries. Managerial reviews and our judgmental sample of 60 written inquiries that were closed from the Correspondence Control System (CCS) database between January 1 and April 29, 2000, showed that customers were provided accurate responses approximately 90 percent of the time. The TE/GE Division has also implemented a quality review process, which is designed to monitor, measure, and improve the quality of responses being sent to customers.

While the TE/GE Division has made considerable progress in implementing the centralized correspondence operation, additional enhancements are needed to ensure that program goals assist in meeting customer expectations of receiving timely responses to written inquiries. Also, the TE/GE Division needs to improve processing controls to increase assurances that customers receive timely responses to their written inquiries and managers are provided with timely information to effectively monitor the status of open inventory in the centralized correspondence operation. In addition, controls over the CCS database need to be enhanced to improve the reliability, completeness, accuracy, and security of correspondence data.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

The Tax Exempt and Government Entities Division Needs to Ensure That Program Goals and Processing Controls Assist in Managing the Correspondence Operation

Written inquiries processed by the centralized correspondence operation are not being consistently processed within the 30-day standard¹ required by the Internal Revenue Service (IRS) correspondence handbook. Between October 1, 1999, and April 29, 2000, the centralized correspondence operation averaged approximately 45 days to receive, control, and process customers' written inquiries and initiate the final responses. Our analysis showed that 5,593 of the 8,149 (69 percent) written inquiries closed during this period exceeded the 30-day standard. As a result, many customers did not receive timely responses to their written inquiries.

Specific program goals will assist the TE/GE Division in meeting the expectations of customers and stakeholders

Although program goals were not in place for Fiscal Year (FY) 2000, the TE/GE Division had tasked a Customer Service function sub-team with developing recommendations for improving customer satisfaction and business results. While the sub-team has not issued its report, a sub-team member advised us that the team plans to propose a 30-day program goal for processing written inquiries; this would be consistent with the standard applied in other IRS functions. In the interim, the Director, Customer Account Services established goals for FY 2001 that include program goals for the telephone, R-Mail,² and correspondence operations.

Management officials at the TE/GE centralized customer service site advised us that the unique nature of some written inquiries requires employees to use more than 30 days to prepare final responses; thus, a 30-day standard may be unrealistic for a portion of the written inquiries. Our analysis of a judgmental sample of 24 written inquiries also concluded that the 30-day standard should be acceptable for most customers but may be unrealistic for a portion of the written inquiries.

Enhanced processing controls will increase assurances that written inquiries are timely processed and that information reports are accurate

The TE/GE Division has not established sufficient processing controls to ensure that written inquiries are timely processed. In addition, information reports for the centralized correspondence operation did not provide managers with accurate, timely information. This information is essential to effectively monitor the status of open inventory. Processing controls were ineffective because TE/GE Division practices did not establish end-to-end accountability over written inquiries and case-closing practices do not ensure

¹ The IRS Handbook requires incoming written inquiries to be processed within 30 calendar days of receipt.

² R-Mail referrals are the automation of paper referrals by the IRS Customer Service function.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

that closing information appropriately captured the date when responses were sent to customers.

Our review of information on the CCS database showed that only 31 percent of the written inquiries received between October 1, 1999, and April 29, 2000, were processed within the 30-day IRS standard. However, by streamlining the processing of incoming written inquiries, the IRS could increase the number of written inquiries processed within 30 days. We reviewed a judgmental sample of 60 written inquiries that took more than 30 days to process and determined that the added step of delivering written inquiries to the Employee Plans and Exempt Organizations Determinations Processing Mailroom added 5 days to the processing time. Our analysis of the CCS database showed that approximately 8 percent of the written inquiries were processed between 31 and 35 days after receipt. Thus, direct mailing to the centralized correspondence operation could increase the number of written inquiries that are processed within 30 days.

Additionally, sufficient controls were not in place to ensure that closing information was timely entered into the CCS. The delays occurred because no requirement existed for clerks to enter closing information within a specified time period.

System Enhancements Are Needed to Ensure That Correspondence Data Are Accurate, Complete, Reliable, and Secure

The TE/GE Division has not established appropriate controls on the CCS database to provide reasonable assurance that correspondence data are accurate, complete, reliable, and secure. As currently structured, the CCS database does not:

- Require data to be entered in essential fields.
- Prevent information in these essential fields from being edited or deleted.
- Use validity checks to limit the range of values allowed to be entered to prevent errors.
- Prevent the saving of blank records.
- Facilitate the identification of duplicate and multiple written inquiries.³

These conditions occurred because the TE/GE Division did not follow accepted system practices when developing the CCS database. For example, user needs were not met since requirements were never technically defined. Also, security controls were not adequate to protect correspondence data from unintentional or deliberate disclosure, alteration, or destruction. Security controls were ineffective because minimum security requirements were not defined and incorporated into the CCS database.

³ Duplicate written inquiries occur when a customer requests the same actions in more than one inquiry. Multiple written inquiries occur when a customer requests different actions in more than one inquiry.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

Summary of Recommendations

The Commissioner, TE/GE Division, should ensure that the TE/GE Customer Account Services function completes work on the establishment of program goals. The proposed goals should ensure that the expectations of customers and stakeholders are being met. The Commissioner, TE/GE Division, should also eliminate the additional step used to process incoming written inquiries and establish time standards for entering closing information into the CCS database. In addition, the Commissioner, TE/GE Division, should ensure that controls over the CCS database are adequate to provide managers with information needed to effectively and efficiently monitor and manage the performance of the centralized correspondence operation.

Management's Response: The TE/GE Division agreed with the recommendations in the report and has already implemented several of them. The TE/GE Division now has specific program goals and processing procedures in place to meet the expectations of customers and stakeholders. The TE/GE Division also submitted a Request for Information Services to increase assurances that the CCS database will meet user needs and the minimum IRS security requirements. Management's complete response to the draft report is included as Appendix IV.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

Objective and Scope

The audit objective was to evaluate the TE/GE Division's effectiveness in implementing the centralized correspondence operation.

The overall objective of this audit was to evaluate whether the Tax Exempt and Government Entities (TE/GE) Division effectively implemented a centralized correspondence operation that provides quality responses¹ to customers' written inquiries.

Specifically, we:

- Determined if the TE/GE Division established program goals and objectives for providing accurate and timely customer service through the centralized correspondence operation.
- Determined if the centralized correspondence operation provided accurate and timely responses to customers' written inquiries.

We performed our audit in the TE/GE centralized customer service site in Cincinnati, Ohio, between May and September 2000. This audit was performed in accordance with *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

The mission of the TE/GE Division is to provide customers quality service by helping them understand and comply with applicable tax laws and to protect the public interest by applying the tax law with integrity and fairness to all. To achieve its mission, the TE/GE Division is structured around three customer segments: Employee Plans, Exempt Organizations, and Government Entities. Each customer segment is

¹ A quality response is one that accurately answers the customer's written inquiry within 30 calendar days of receipt by the Internal Revenue Service.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

The TE/GE Division is providing customer assistance through a centralized customer service site.

responsible for understanding the unique needs of its customers.

The TE/GE Division grouped the primary products that support its mission into four general functions that are designed to meet the needs of its customers: Rulings and Agreements, Education and Communication, Customer Account Services (CAS), and Examinations. Because the CAS is a small function, it was centralized in Cincinnati to serve each of the three TE/GE Division customer segments.

The TE/GE centralized customer service site responds to telephone inquiries from customers, to inquiries received from the Internal Revenue Service (IRS) Customer Service function through the R-Mail referral program,² and to written inquiries received directly from customers. Since establishment of the centralized customer service site in Fiscal Year (FY) 1998, the number of telephone inquiries has rapidly increased from 68,491 to 269,199 in FY 2000. However, during the same period, the number of correspondence inquiries has steadily decreased from 28,766 to 20,764. We could not compare the number of inquiries for the R-Mail referral program because FY 2000 was the first year for the program.

Except for R-Mail referrals controlled by the IRS Customer Service function, information relating to written inquiries was entered on the recently developed Correspondence Control System (CCS). The TE/GE centralized customer service site uses the CCS to control written inquiries and to generate reports that assist in managing the performance of the centralized correspondence operation.

² R-Mail referrals are the automation of paper referrals by the IRS Customer Service function.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

Results

The centralized correspondence operation is accurately responding to written inquiries.

The TE/GE Division has implemented a centralized correspondence operation that generally provides accurate responses to customers' written inquiries. Managerial reviews from the centralized customer service site for the TE/GE Division and our review of a judgmental sample of 60 written inquiries closed from the CCS database between January 1 and April 29, 2000, showed that customers were provided accurate responses approximately 90 percent of the time.

The TE/GE Division has also implemented a quality review process, which is designed to provide a method to monitor, measure, and improve the quality of responses being sent to customers. Specifically, the quality review process measures the technical and procedural correctness of responses, communication skills, timeliness, and whether the inquiry was resolved on the initial contact. The information from the quality reviews is also designed to identify trends, problem areas, training needs, and opportunities for improvement.

While considerable progress has been made in implementing the centralized correspondence operation, the TE/GE Division could increase assurances that customers are provided the highest quality service in a timely and efficient manner by:

- Ensuring that program goals assist the TE/GE Division in meeting the expectations of customers and enhancing processing controls to improve the timely processing and reporting of written inquiries.
- Enhancing controls on the CCS database to ensure correspondence data are accurate, complete, reliable, and secure.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

The Tax Exempt and Government Entities Division Needs to Ensure That Program Goals and Processing Controls Assist in Managing the Correspondence Operation

Written inquiries processed by the centralized correspondence operation are not being consistently processed within the 30-day standard³ required by the IRS correspondence handbook. Between October 1, 1999, and April 29, 2000, the centralized correspondence operation averaged approximately 45 days to receive, control, and process customers' written inquiries and initiate the final responses. Our analysis showed that 5,593 of the 8,149 (69 percent) written inquiries closed during this period exceeded the 30-day standard. As a result, many customers did not receive timely responses to their written inquiries.

Specific program goals will assist the TE/GE Division in meeting the expectations of customers and stakeholders

The TE/GE Division has initiated a process to establish program goals.

Although program goals were not in place for FY 2000, the TE/GE Division had tasked a Customer Service function sub-team with developing recommendations for improving customer satisfaction and business results. In March 2000, the TE/GE Division established a Customer Service function sub-team to develop recommendations for improving customer satisfaction and business results. While the sub-team has not issued its report, a sub-team member advised us that the team plans to propose a 30-day goal for processing written inquiries. The 30-day goal is consistent with the IRS correspondence handbook. In the interim, the Director, CAS established goals for FY 2001 that include program goals for the telephone, R-Mail, and correspondence operations.

Management officials at the TE/GE centralized customer service site advised us that the unique nature

³ The IRS Handbook requires incoming written inquiries to be processed within 30 calendar days upon receipt.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

of some written inquiries requires employees to use more than 30 days to prepare final responses. However, no information currently exists to determine the number of unique written requests that require more than 30 days to process.

Correspondence closures on the CCS showed variances in processing times after assignment to employees responsible for working the written inquiries. For example, 6,600 of the 8,149 (81 percent) written responses closed between October 1, 1999, and April 29, 2000, were prepared in an average of 9 days after being assigned to employees in the centralized correspondence operation. The remaining 1,549 written inquiries required an average of 44 days to process once they were assigned. We randomly selected a judgmental sample of 24 closed written inquiries from the 1,549 inquiries that required more than 30 days to process after being assigned and determined that 14 of the 24 would have been difficult to resolve within 30 days because they either:

- Required additional information from the customer.
- Were delayed while waiting for a pending transaction to post to a customer's account.
- Required additional time due to the technical nature of the inquiry.

The 30-day standard may be unrealistic for a portion of the written inquiries processed by the TE/GE Division.

Delays for the remaining 10 cases generally resulted from untimely initial actions taken by employees responsible for working the inquiries or from untimely entry of closing information into the CCS.

Consequently, the 30-day standard for processing written inquiries should be acceptable for most of the customers but may be unrealistic for a portion of the written inquiries.

Realistic program goals are necessary to effectively assess whether the expectations of customers and other stakeholders such as the Congress are being met.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

The TE/GE Division had not established specific program goals for FY 2000 because it was a relatively new organization.

TE/GE Division management stated that specific program goals for FY 2000 had not been established because the TE/GE Division was a relatively new organization. The Division became operational in December 1999, and the implementation should be considered a process and not an event.

Further, the TE/GE Division used Calendar Year 2000 to begin migrating to its new organizational structure. The Director, CAS, was selected in March 2000 as part of the stand-up of the new TE/GE Division. Management advised us the selection of the Director was a necessary step before establishing program goals and measures.

Enhanced processing controls will increase assurances that written inquiries are timely processed and that information reports are accurate

Sufficient processing controls do not exist to ensure customers' written inquiries are timely processed. In addition, managers in the centralized correspondence operation were not provided accurate information in a timely manner. This information is essential to providing TE/GE Division management with the ability to effectively monitor the status of open inventory. Processing controls are ineffective because:

- The centralized correspondence operation does not have end-to-end accountability over written inquiries.
- The CCS database uses the date that written inquiries are closed from the CCS database and does not capture or use the date that responses are actually mailed to customers.
- Requirements for clerical personnel to enter closing information within a specified time period do not exist.

IRS correspondence guidelines require final responses to customers' written inquiries to be processed within 30 days of the IRS received date. The centralized correspondence operation processed approximately

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

Additional processing steps prevent the centralized correspondence operation from establishing end-to-end accountability over written inquiries.

31 percent of its written inquiries within this 30-day standard. Prior to receipt by the centralized correspondence operation, written inquiries are delivered to the Employee Plans and Exempt Organizations (EP/EO) Determinations Processing Mailroom, along with incoming determination requests. The incoming written inquiries are separated from the EP/EO Determinations and forwarded to the centralized correspondence operation.

We reviewed a judgmental sample of 60 written inquiries closed more than 30 days after receipt and observed that the added step of delivering written inquiries to the EP/EO Determinations Processing Mailroom added approximately 5 days to the processing time. Our analysis of the CCS database showed that approximately 8 percent of the written inquiries were processed between 31 and 35 days after receipt. Thus, direct mailing of customer written inquiries to the centralized correspondence operation could increase the number of written inquiries processed within 30 days.

In addition to delays in processing written inquiries, the centralized correspondence operation does not have sufficient controls to ensure that closing information is timely entered into the CCS. Clerks within the centralized correspondence operation are responsible for entering the closing information to the CCS database, but no time standard exists for accomplishing this task. This condition resulted in the inaccurate reporting of closing information.

Management information reports showed that closing information was not timely entered on the CCS database for 1,193 closed written inquiries.

Management information reports for the week ending January 1, 2000, showed the centralized correspondence operation closed 4,174 written inquiries in the first quarter of FY 2000. However, subsequent queries to the CCS database by Treasury Inspector General for Tax Administration auditors for the same period showed that the actual number of closures was 5,367.

This condition occurred because no requirement existed for clerks to enter closing information within a specified time period. In addition, the Director, CAS, advised us that his office was understaffed and only recently

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

received authorization to hire three clerical positions that were vacant.

Recommendations

1. The Commissioner, TE/GE Division, should ensure that the CAS function completes work on the establishment of program goals. The proposed goals should ensure that the expectations of customers and stakeholders are being met. Specifically, the time standards for processing written inquiries should accommodate the unique nature associated with some types of requests. To accomplish this, the TE/GE Division should determine the number of unique requests that require more than 30 days to process and specify the percentage of written inquiries that would likely exceed this goal.

Management's Response: Working with the National Treasury Employees Union, the TE/GE Division established balanced measures program goals. These goals meet the IRS correspondence guidelines and are reported in the Business Performance Review.

2. The Commissioner, TE/GE Division, should require that incoming written inquiries be forwarded to the TE/GE Customer Service site. This would eliminate the added step of having the written inquiries first being sent to the EP/EO Determinations Processing Mailroom.

Management's Response: The TE/GE Division reorganized its mailroom operation. Written inquiries are now delivered from the IRS building mailroom directly to the TE/GE Customer Service site. They no longer pass through the EP/EO Determinations Processing Mailroom.

3. The Commissioner, TE/GE Division, should establish appropriate time standards for entering closing information into the CCS database.

Management's Response: The TE/GE Division has established time standards for entering closing

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

information into the CCS database. Mailroom clerks are now required to enter closing information in the CCS database and mail responses within 1 day of completion. In addition, the TE/GE Division is drafting Internal Revenue Manual procedures to formalize the new processing requirements.

System Enhancements Are Needed to Ensure That Correspondence Data Are Accurate, Complete, Reliable, and Secure

The CCS database does not have appropriate controls to ensure correspondence data are accurate, complete, reliable, and secure.

The TE/GE Division has not established appropriate controls on the CCS database to provide reasonable assurance that correspondence data are accurate, complete, reliable, and secure. As currently structured, the CCS database does not:

- Require data to be entered in essential fields prior to saving a record.
- Prevent the deleting or editing of information previously entered in fields designated as essential.
- Use validity checks to limit the range of values allowed to be entered to prevent error.
- Prevent the saving of blank records.
- Facilitate the identification of duplicate and multiple written inquiries.⁴

As a result, the CCS does not have the information necessary to effectively monitor, manage, and report on the performance of the centralized correspondence operation. This type of information is needed for the development of proactive customer education efforts and the identification of opportunities for improving

⁴ Duplicate written inquiries occur when a customer requests the same actions in more than one inquiry. Multiple written inquiries occur when a customer requests different actions in more than one inquiry.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

processes within the centralized correspondence operation.

While there is no legislative or other mandatory requirement to enhance the CCS database, establishing an appropriate system of controls would permit the TE/GE Division to verify that the correct operations have been performed in the correct manner with the correct data. These internal controls would include manual and automated actions to:

- Preserve the accuracy of data by detecting and/or preventing operator errors.
- Ensure data are not lost or added, by monitoring balances between processes.
- Ensure the integrity of data so programs do not inadvertently change the values of data.
- Permit the proper recovery/reconstruction of file data after a system failure or abnormal termination.
- Safeguard sensitive data to prevent unauthorized access or other breaches of security.

A Software Requirements Analysis Package (RAP) should be developed in the Initiation Phase of a system development project to define and analyze users' needs and to document the functional requirements of the system. The RAP should also delineate the responsibilities of the users to identify system needs and the responsibilities of the project manager to deliver the functionality of the system.

The CCS database functional requirements were not adequately and completely defined to satisfy user needs.

The CCS was not developed using accepted system development practices. Since a RAP or equivalent process was not followed, user needs were not adequately and completely met since they were never technically defined. For example, IRS guidelines reflect that final responses to written inquiries must be initiated within 30 days of the IRS received date. However, field requirements were not adequately defined to show when final responses were actually sent to customers. As a result, the centralized correspondence operation used the

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

The efficiency of the centralized correspondence operation can be improved by effectively identifying duplicate and multiple written inquiries.

date the written inquiry was closed off the CCS database rather than the date the final response was mailed. A judgmental sample of 60 closed written inquiries showed that using the date closed off the CCS added approximately 5 days to the reported response times.

Additionally, the centralized correspondence operation does not capture the information necessary to identify duplicate and multiple written inquiries. For example, customer name fields were blank in some instances and entered with capital and/or small case letters in other instances. Similarly, the Employer Identification Number field was blank or entered with hyphenated or non-hyphenated numbers. This resulted in an inefficient method for identifying duplicate and multiple written inquiries and increased the risk of inconsistent responses being sent to customers.

Analysis of FY 2000 case closures through June 14, 2000, from the CCS database showed that the centralized correspondence operation did not issue consolidated responses to 62 of the 86 (72 percent) customers with duplicate written inquiries and to 124 of the 138 (90 percent) customers with multiple written inquiries.

Security controls are not adequate to protect the CCS correspondence data from unintentional or deliberate disclosure, alteration, or destruction.

Security controls over the CCS database are not adequate to protect correspondence data from unintentional or deliberate disclosure, alteration, or destruction. For example, users with research only capabilities can use the CCS basic menu commands to obtain a complete copy of the database. The system does not prevent users from replacing information on the CCS database with information from the unauthorized copy.

Security controls were ineffective because minimum security requirements were not defined and incorporated into the CCS database. Information on the CCS database could be protected from destruction or unauthorized alterations by limiting access and permissions to information on the database.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

Recommendation

4. The Commissioner, TE/GE Division, should ensure controls over the CCS database are adequate to provide TE/GE Customer Service management with information needed to effectively and efficiently monitor and manage the performance of the centralized correspondence operation. While there is no legislative or mandatory requirement to enhance the CCS database, the accuracy, completeness, reliability, and security of data can be improved with some modifications to the existing database. Specific improvements that are needed include:

- Developing system controls for the CCS database structure to provide reasonable assurance that information on the system is accurate.
- Ensuring that duplicate and multiple written inquiries can be identified.
- Defining the functional requirements for the CCS database to ensure the informational needs of the TE/GE Division are being met.
- Identifying minimum security requirements for the CCS database applications through an application security plan or equivalent process.

Management's Response: The TE/GE Division has taken steps to address the concerns expressed about the CCS database. Actions taken include: modifying the database, appointing a manager to monitor and control the inventory, and creating a quality assurance unit to conduct sample reviews that will ensure internal controls are functioning as intended. A Request for Information Services was submitted to ensure that informational needs were defined and security requirements were identified.

Conclusion

The centralized correspondence operation has demonstrated that it generally provides accurate responses to customers' written inquiries. However, the TE/GE Division needs to ensure that program goals assist it in its efforts to manage the organization in a manner that will meet the expectations of its customers and stakeholders. The TE/GE Division can improve controls for processing written inquiries to ensure that customers are receiving timely responses. In addition, the TE/GE Division should enhance system controls for the CCS database to increase assurances that all written inquiries are accounted for and that information generated from the database assists in managing the centralized correspondence operation.

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to evaluate whether the Tax Exempt and Government Entities (TE/GE) Division effectively implemented a centralized correspondence operation that provides quality responses to customers' written inquiries. Specifically, we addressed whether the TE/GE Division met program objectives by establishing an effective centralized correspondence operation to ensure customers are provided accurate, fair, and timely service. We performed the following audit tests to accomplish the objective.

- I. To determine if the TE/GE Division established program goals for providing accurate and timely customer service through the centralized correspondence operation, we:
 - A. Determined if local and national program goals had been established for the centralized correspondence operation.
 1. Identified local and national program goals for the centralized correspondence operation.
 2. Identified the process used to develop the centralized correspondence operation's program goals and determined the underlying philosophy and reasonableness of the program and performance goals.
 3. Determined the extent to which the program and performance goals were met.
 4. Determined if the Balanced Measurement System¹ had an effect on program and performance goals used to assess the centralized correspondence operation.
 - B. Determined if the Correspondence Control System (CCS) database, used to control written inquiries and report the performance of the centralized correspondence operation, was adequate.
 1. Obtained a copy of the CCS database and identified control deficiencies.
 2. Determined the effect control deficiencies had on the reporting of written inquiries by the centralized correspondence operation.

¹ The Balanced Measurement System provides a means to communicate organizational priorities and establish a linkage between performance goals and organizational objectives.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

3. Determined how duplicate and multiple correspondence were controlled on the CCS. For duplicate and multiple correspondence not controlled on the CCS, we determined how they were controlled and reported.
 4. Identified the process the centralized correspondence operation employees used to report problems with the CCS database and determined whether back-ups of the CCS database were performed.
 5. Evaluated the adequacy of the contingency plan in the event the system used to support the CCS database failed or the database became corrupt.
- C. Evaluated controls for processing standardized letters to determine whether the system-generated customer responses were accurate.
1. Determined how standardized letters were protected from unapproved changes.
 2. Interviewed TE/GE Customer Service Program managers and the TE/GE System Administrator and determined the process used to make changes to the pre-made paragraphs.
 3. Determined if the centralized correspondence operation employees can make copies of the standardized letters and identified security controls used to protect the standardized letters from unauthorized or inadvertent changes.
- D. Identified the process the centralized correspondence operation uses to answer written inquiries that involve exempt organizations and determined if the process was adequate to ensure the TE/GE customers received timely and accurate service.
1. Performed a walk-through with an Exempt Organization (EO) group responsible for processing written inquiries received directly from customers and determined how types of EO written inquiries were received, controlled, and prioritized to be assigned and worked.
 2. Determined the process used by the centralized correspondence operation to answer written inquiries concerning exempt organizations, including the required research, case chronology documentation, preparation, and managerial approvals of responses.
 3. Identified how the centralized correspondence operation received, controlled, prioritized, and assigned written referrals from other Internal Revenue Service (IRS) functions.
 4. Determined the types of reviews performed by the centralized correspondence operation to ensure customers received timely and accurate responses.

**Improvements to the Tax Exempt and Government Entities Correspondence
Operation Would Enhance Customer Service**

5. Determined what reports were used to evaluate and monitor the overall performance of the centralized correspondence operation.
 6. Evaluated the process used to report closed EO written inquiries and to ensure they were removed from open inventory.
- E. Identified the process the centralized correspondence operation uses to answer written inquiries that involve employee plans and determined if the process was adequate to ensure the TE/GE customers received timely and accurate service.
1. Performed a walk-through with an Employee Plans (EP) group responsible for processing written inquiries after they were received and controlled by the TE/GE centralized customer service site and determined how the EP written inquiries were received, controlled, prioritized to be assigned, and worked.
 2. Determined the process used by the EP groups to answer written inquiries concerning employee plan issues, including the required research, case chronology documentation, preparation, and managerial approvals of responses.
 3. Determined the types of reviews performed by EP groups to ensure customers received timely and accurate responses.
 4. Determined what reports the TE/GE centralized customer service site used to evaluate and monitor the performance of the EP groups.
 5. Evaluated the process used by EP groups to ensure that closed written inquiries were reported to the centralized correspondence operation and the closed written inquiries were removed from open inventory.
- II. To determine whether the centralized correspondence operation provided accurate and timely responses to customers' written inquiries, we:
- A. Randomly selected a judgmental sample of 60 of the 5,186 cases closed between January 1 and April 29, 2000, and determined if the centralized correspondence operation employees provided accurate and timely customer service.
1. Determined if selected paragraphs in the standardized letters properly addressed the reasons for the written inquiries.
 2. Determined if the centralized correspondence operation employees obtained the appropriate approvals when changes were made to the standardized letters.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

3. Determined if responses complied with disclosure guidelines established under Internal Revenue Code Sections 6104 and 6110.²
 4. Determined if the TE/GE customers received timely responses to their written inquiries by calculating the response time.
 5. Determined if case chronologies contained sufficient documentation to support the actions taken and responses provided to the TE/GE customers.
 6. Determined if the centralized correspondence operation closed written inquiries without contacting customers.
- B. Selected a judgmental sample of 24 of the 1,549 cases closed between October 1 and April 29, 2000, that required more than 30 days to process once assigned, identified the cause(s) for the untimely responses, and determined whether the 30-day standard³ is realistic for all written inquiries.
- C. Identified the cause(s) for misrouted written inquiries and determined what actions were taken to reduce the number of misrouted inquiries.
- D. Determined what affect the Quality Assurance program had on the centralized correspondence operation's ability to provide accurate, fair, and timely service to customers' written inquiries.
1. Assessed the results of Quality Assurance reviews and determined if the reviews enabled the centralized correspondence operation to objectively measure whether customers received accurate, fair, and timely responses to their written inquiries.
 2. Determined if the Quality Assurance program tracked and analyzed the reasons for the TE/GE customers' written inquiries and determined whether actions taken effectively addressed the issues.
 3. Determined if Quality Assurance results were shared with the centralized correspondence operation employees and their managers to identify areas that needed improvement.
- E. Determined whether employees responsible for working written inquiries received adequate training.

² 26 U.S.C. § 6104 (1986) and 6110 (1996).

³ The IRS Handbook requires incoming written inquiries to be processed within 30 calendar days of receipt.

**Improvements to the Tax Exempt and Government Entities Correspondence
Operation Would Enhance Customer Service**

Appendix II

Major Contributors to This Report

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**Improvements to the Tax Exempt and Government Entities Correspondence
Operation Would Enhance Customer Service**

Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner, Tax Exempt and Government Entities Division T
Chief Counsel CC
Director, Customer Account Services T:CAS
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
National Taxpayer Advocate TA

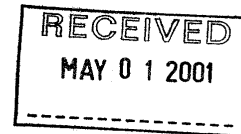
**Improvements to the Tax Exempt and Government Entities Correspondence
Operation Would Enhance Customer Service**

Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



MAY 1 2001

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Evelyn A. Petschek, Commissioner
Tax Exempt and Government Entities Division

SUBJECT: Response To Draft Audit Report – Improvements To The
Tax Exempt and Government Entities Correspondence
Operation Would Enhance Customer Service

Thank you for the opportunity to respond to your draft report concerning the Tax Exempt and Government Entities (TE/GE) correspondence operation in Cincinnati. The report acknowledges that TE/GE Customer Accounts Services (CAS) has made considerable progress in implementing a new centralized correspondence operation in Cincinnati. We began this operation in 1999 and have continued to improve it.

Correspondence is a small percentage of the TE/GE CAS workload (less than 7%), but it has been the focus of the entire CAS team. Your report addresses several issues that surfaced when we started our operation. These issues are no longer as significant. However, many of the observations you made in your report will be helpful to us as we further refine our processes.

Between the improvements we have already made and our plans for future enhancements to our service, we expect continued progress in providing "World Class Customer Service" on behalf of the IRS.

Our comments on the recommendations in your report follow:

IDENTITY OF RECOMMENDATION #1

The Commissioner, TE/GE Division, should ensure that the CAS function completes work on the establishment of program goals.

ASSESSMENT OF CAUSE(S)

Specific goals and procedures were not in place in early 2000 because CAS was a new organization, and we did not select a Director, Customer Account Services until March 2000. One of the Director's first responsibilities was to establish program goals and measures.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

2

CORRECTIVE ACTIONS

Working with the National Treasury Employees Union, TE/GE CAS established balanced measures goals in October 2000. These goals meet IRS correspondence guidelines and are reported in the Business Performance Review.

IMPLEMENTATION DATE

This item has been completed.

RESPONSIBLE OFFICIAL(S)

This item has been completed.

CORRECTIVE ACTION(S) MONITORING PLAN

This item has been completed.

IDENTITY OF RECOMMENDATION #2

The Commissioner, TE/GE Division, should require that incoming written inquiries be forwarded to the TE/GE Customer Service site.

ASSESSMENT OF CAUSE(S)

When CAS was first created, all mail for TE/GE in Cincinnati went to one location in the site.

CORRECTIVE ACTIONS

CAS organized its own mailroom operation. Written inquiries are now delivered from the building mailroom directly to CAS. They no longer pass through the EP and EO determinations processing mailroom.

IMPLEMENTATION DATE

This item has been completed.

RESPONSIBLE OFFICIAL(S)

This item has been completed.

CORRECTIVE ACTION(S) MONITORING PLAN

This item has been completed.

IDENTITY OF RECOMMENDATION #3

The Commissioner, TE/GE Division, should establish appropriate time standards for entering closing information into the CCS database.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

3

ASSESSMENT OF CAUSE(S)

As a relatively new operation, CAS did not formally document procedures for their entire operation.

CORRECTIVE ACTIONS

CAS organized its own mailroom operation. Mailroom clerks enter closing information in the database and mail responses within one day of completion. In addition, CAS recently hired management analysts to draft Internal Revenue Manual (IRM) procedures for TE/GE CAS processing requirements. The only remaining task is to draft and publish these procedures.

IMPLEMENTATION DATE

April 1, 2002

RESPONSIBLE OFFICIAL(S)

Director, TE/GE CAS

CORRECTIVE ACTION(S) MONITORING PLAN

The Director, TE/GE CAS will report the publication of the TE/GE CAS processing procedures in the IRM to the Commissioner, TE/GE.

IDENTITY OF RECOMMENDATION # 4

The Commissioner, TE/GE should ensure controls over the CCS database are adequate to provide TE/GE Customer Service management with information needed to effectively and efficiently monitor and manage the performance of the centralized correspondence operation.

ASSESSMENT OF CAUSE(S)

The initial database used to control and report correspondence inventory was inadequate. When the database was developed, user needs were not technically defined. Security controls did not adequately protect correspondence data from disclosure, alteration or destruction. Minimum security requirements were not defined and incorporated into the CCS database.

Since the time described in the report, CAS took all steps possible within TE/GE's control to address the concerns outlined in the report about the CCS database:

- We appointed a manager to monitor and control the inventory daily.
- We improved the current database and provided additional training to its users.
- We share weekly reports on receipts, closures and age of open inventory with all CAS managers and the Director, CAS.

Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service

4

- We adopted a balanced measures goal consistent with IRS correspondence guidelines.
- We created a quality assurance unit to conduct sample reviews of the correspondence function to ensure that internal controls are adequate.

We will address the remaining items of concern outlined in recommendation 4 when Information Services (IS) completes the Request for Information Services (RIS) we submitted on September 26, 2000.

CORRECTIVE ACTIONS

IS will complete the RIS which TE/GE submitted on September 26, 2000.

IMPLEMENTATION DATE

April 1, 2002

RESPONSIBLE OFFICIALS

Manager, CAS Customer Service

CORRECTIVE ACTION MONITORING PLAN

The Manager, CAS Customer Service, will report to the Director, CAS on the completion of the RIS.